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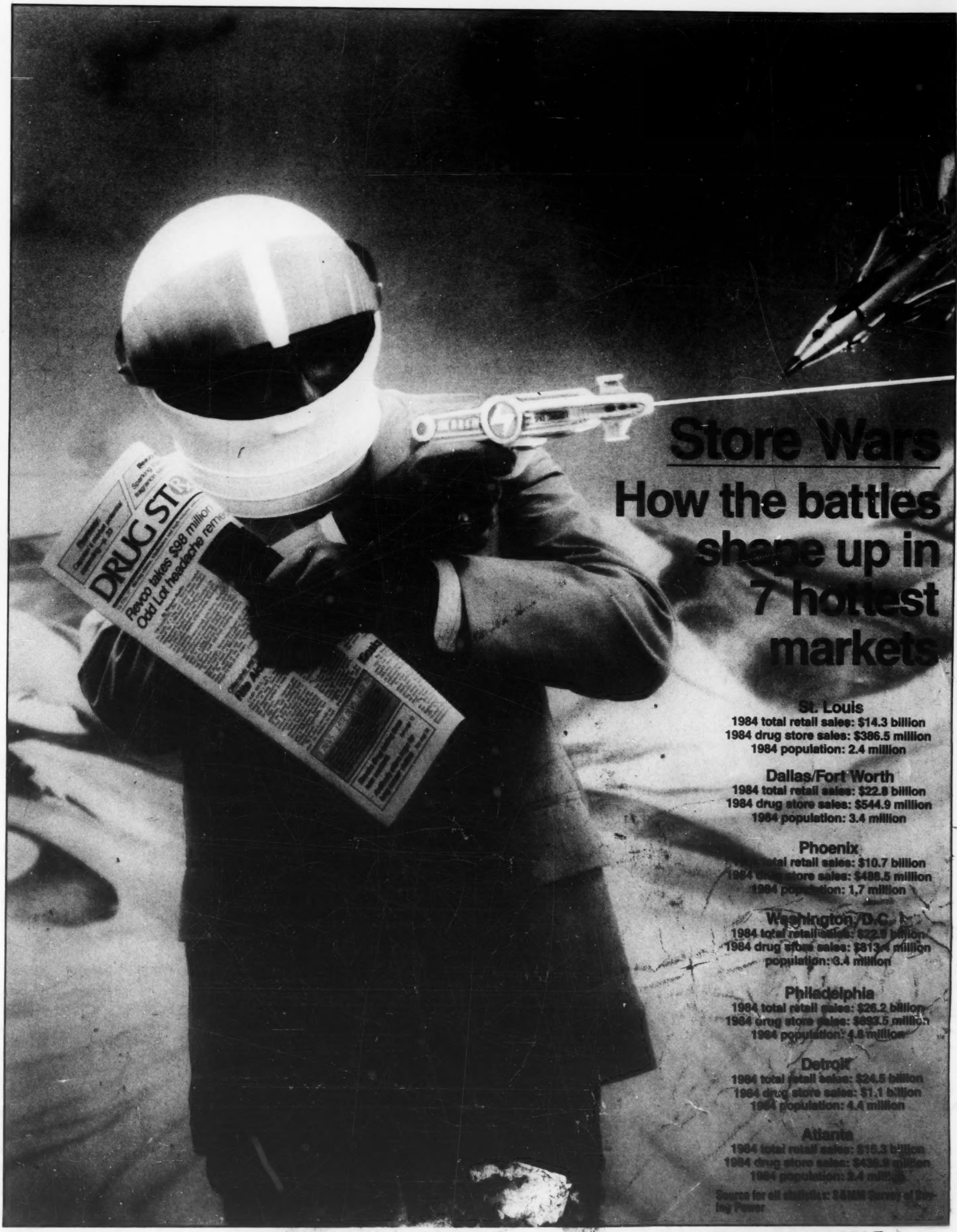
DRUG STORE NEWS®

Vol. 7/No. 26 **Serving chains, wholesalers and high-volume independents for 56 years.** Published by Lebhar-Friedman Inc. December 9, 1985



Store Wars

How the battles shape up in 7 hottest markets

St. Louis
1984 total retail sales: $14.3 billion
1984 drug store sales: $386.5 million
1984 population: 2.4 million

Dallas/Fort Worth
1984 total retail sales: $22.8 billion
1984 drug store sales: $544.9 million
1984 population: 3.4 million

Phoenix
1984 total retail sales: $10.7 billion
1984 drug store sales: $488.5 million
1984 population: 1.7 million

Washington, D.C.
1984 total retail sales: $22.9 billion
1984 drug store sales: $813.4 million
population: 3.4 million

Philadelphia
1984 total retail sales: $26.2 billion
1984 drug store sales: $893.5 million
1984 population: 4.8 million

Detroit
1984 total retail sales: $24.5 billion
1984 drug store sales: $1.1 billion
1984 population: 4.4 million

Atlanta
1984 total retail sales: $15.3 billion
1984 drug store sales: $436.9 million
1984 population: 2.4 million

Source for all statistics: S&MM Survey of Buying Power

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FBI targets Bindley for drug diversion check

WASHINGTON — Justice Department drug diversion investigators are focusing in on the Indianapolis market where a federal grand jury has subpoenaed documents from Bindley-Western as part of the FBI's broadening crackdown on the distribution of mislabeled and fraudulently obtained pharmaceuticals.

Justice officials confirmed the existence of the Indiana investigation—an offshoot of last summer's FBI drug diversion "sting" in Atlanta—after Bindley Western announced that "a search warrant was executed by federal agents at the company's headquarters in Indianapolis."

According to officials at the Indiana-based wholesale drug firm, the targets of the new Hoosier grand jury investigation "apparently" are Bindley-Western board chairman William E. Bindley and David D. Swaim, the company's vp-treasurer.

Two former Bindley-Western top execs, executive vp Jack E. Laughner and purchasing vp Stephen Asher, have already pleaded guilty to various diversion-related criminal activities uncovered during the Atlanta probe.

Asher, 37, has been sentenced to three years in prison for his part in the alleged conspiracy to fraudulently purchase drugs at institutional discount prices, while a third Bindley-Western official, Atlanta sales manager Harry M. Nail, 39, was fined $1,000 and placed on probation for five years following his guilty plea for selling adulterated and misbranded pharmaceuticals.

Laughner, who was still awaiting sentencing at press-time, faces a maximum of 10 years in prison plus $2,000 in federal fines after pleading guilty to two counts of mail and wire fraud.

A fourth Bindley-Western official, Atlanta-based vp/gm Michael W. Gemmill, faces maximum penalties of eight years in prison plus $11,000 in fines for allegedly engaging in mail fraud and selling adulterated and misbranded drugs.

Although federal authorities refused to comment on the scope of the newly disclosed Indianapolis grand jury investigation, officials at the wholesale drug firm said that both "the company and the individuals [Bindley and Swaim] are cooperating in the investigation."

Significantly, there are strong indications that the Indiana investigation is only one of a number of similar federal drug diversion probes stemming from the widely publicized Atlanta "Pharmoney" sting operation which surfaced earlier this year.

During testimony before Rep. John Dingell's House Investigations subcommittee this fall, both federal and Georgia-state agents involved in that Atlanta operation disclosed that the Rx diversion probe had spread to other (unnamed) locations both in the United States and abroad.

So far, the original Atlanta investigation has resulted in federal criminal charges

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NEWS IN BRIEF

House committee approves TJTC bill

WASHINGTON — House tax "reformers" approved a two-year extension of the Targeted Jobs Tax Credit Program, but at the same time scaled back the wage subsidies available to drug chains and other employers under TJTC.

The program, which has enabled a number of major chains to reap six-figure tax breaks for hiring disadvantaged individuals, is scheduled to expire at the end of this year unless Congress acts to preserve it.

The House vote, part of the Ways and Means Committee's intensive effort to complete action on the administration's tax "reform" legislation, is only the first step in a complex process to extend the tax credit program.

Since no final tax reform legislation will come to a final vote in Congress before TJTC expires on Dec. 31, a special "extension bill" will have to be approved this month to preserve government programs due to expire at the end of 1985.

Vykukal elected NWDA chairman

LOS ANGELES — Gene Vykukal, vice chairman and ceo of Southwestern Drug, was elected chairman of the board of the National Wholesale Drug Association. Vykukal, a pharmacist, succeeds Lawrence DuBow, president of Lawrence Pharmaceuticals Inc., also a pharmacist.

DuBow was elected chairman of the executive committee; Joseph B. Church, president of Alco Health Services, was elected chairman elect; David E. Mitiguy, president and treasurer of Burlington Drug, was elected first vice chairman; and Barry M. Krelitz, president of Twin City Wholesale Drugs, was elected second vice chairman.

Named for three year terms on the NWDA board were: Paul Rego, regional vp of McKesson Drug; Frank Smith, president of Dr. T. C. Smith; Phillip Solomons, president and chairman of Solomons Co.; and Wayne Specht, president of LAD Drugs.

Cardinal's earnings rise 56% in quarter

DUBLIN, Ohio — Cardinal Distribution recorded a 56% increase in net earnings to $1.2 million, or 29¢ a share, for the second quarter ended Sept. 28.

Net sales for the period increased to $102.8 million from $65.7 million in the same quarter last year.

For the first half, net earnings were $2.2 million, or 55¢ a share, a 60% increase over the $1.4 million, or 43¢ a share, reported in the comparable period a year ago.

Sales for the six months were $203.3 million vs. $125.9 million in the prior year.

Robert D. Walter, chairman and ceo, said the improvement was the result of a "solid performance" in the food segment and continued sales growth in drug distribution operations.

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December 9, 1985

Household Merchandising opens drug/liquor combo

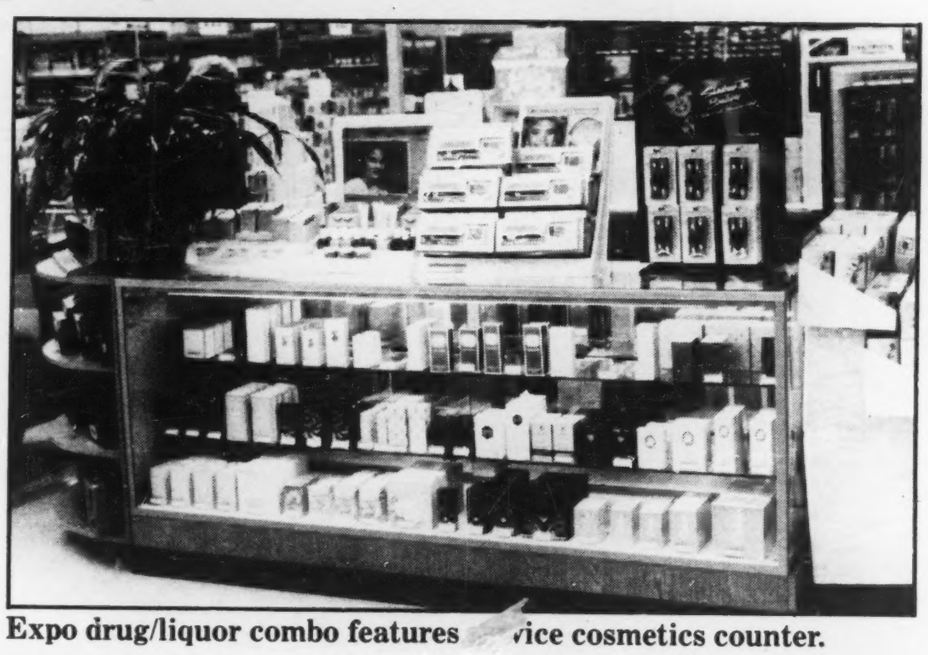
GARDEN GROVE, Calif. — Household Merchandising opened an experimental drug/liquor combination store here, the first of its kind in the West.

The new 23,000-sq.-ft. store, called Expo, is the second combo unveiled by a Household Merchandising unit in less than a month.

The first, a 75,000-sq.-ft. food/drug unit called Vons Pavilions (*Drug Store News*, Nov. 25), is less than a mile away from the experimental Expo store.

There is a vast difference between the two concepts. Vons Pavilions is the food chain's new combo prototype, replacing the 36,000- to 40,000-sq.-ft. Value Centers, while Expo, which splits drug-liquor space 50-50, is strictly a test.

According to Ron Scott, general manager of Expo, there are also differences between the drug part of Expo



Expo drug/liquor combo features vice cosmetics counter.

(70% of the sales are in drug store merchandise) and other deep-discount drug stores.

"Outside of Woolworth's Rx Place in Philadelphia, we are the only discount drug store with 100% scanning," Scott told *Drug Store News*. "In addition, we use our competitors' prices as our discount base instead of the suggested retail. That means we work on lower grosses." That would put Expo's average gross margin below 18%. Scott would not specify a figure.

Two other differences: more case stocking of H&BA ("85% compared to less than

Continued on page 66

Drug stores expect holiday gains

NEW YORK — Despite the pessimism of a few retailers and a cautious projection for the Christmas season by Wheat, First Securities, many drug stores all over the country are gearing up to do 15% to 25% growth over last year's season.

"I don't see any reason to back off," said Vincent Bruno, vp of buying and advertising at Big B. "If the retail stores back off it will make a light Christmas. We're going after it. We're going to push. If you don't have it you can't sell it. We're going to have the merchandise."

Wheat, First Securities predicted a sales gain of 5% to 6% over last year.

Some buyers were concerned about the economy and about the fact that there are six fewer days between Thanksgiving and Christmas. But many are just pushing harder.

Don Gross, vp of marketing and distribution at Genovese, said that circulars went out a little earlier this year. Drug King in Van Nuys, Calif., took out a 24-page ad on Nov. 4 and plans two tabloids. Adams Drug is doing four major circulars this year, one more than last year. Harris Drug in Charleston is planning some spectacular promotions including a Santa delivered by fire truck to its 10 stores and a contest to guess how long it will take a 1,000 lb., multicolored block of ice to melt.

Harris Cohen, owner of Harris Drug, saw the six-day loss as a challenge rather than an obstacle. "The only answer to it is you promote, you promote.

Reports from the users of Christmas catalog put out by Justen Products are that merchandise is already moving. Justen, an importing firm owned by the owners of Division Sales, sends its catalog to the customers of 41 chains. While only four of the chains have had the catalog mailed so far, the Justen merchandise has been in the stores since Oct. 1. Drug King, Harris Drug and several independents in Tennessee said that many of the gift items are already low.

Most of the retailers said they expect such fragrances as Charlie, Enjoli and English Leather to move well, as well as personal appliances, especially hair dryers. Mark Varnau of Hook Drugs said electronic items are moving fast. They also expect popular priced toys to move. Some retailers said that there were no blockbuster toys out this year. Genovese's Gross said that Cabbage Patch dolls and the game Trivial Pursuit, while still good sellers, are "not runaway" items. Many of the executives mentioned GoBots/Robots as probable sellers and Gross called Pound Puppies "gang-busters."

FINANCIAL

Alco revenues on the increase

VALLEY FORGE, Pa. — Alco Health Services, the nation's fourth largest drug wholesaler, reported that for the fiscal year ended Sept. 30 revenues increased 25% to $955.4 million from $766.7 million over.

Revenues for the quarter ended Sept. 30 rose 30% to $257.6 million from $212.05 million.

The drug wholesaler became a new corporation this summer through a $70 million public offering and is now a separate entity for its former parent, Alco Standard, which retains a 60% interest in the company.

For Alco Standard Corp., a diversified company with operations in a number of manufacturing and distribution enterprises, revenues for the fiscal year increased 13% to $3.8 billion from $3.4 billion and income rose 15% to $74.78 million from $64.8 million. Primary earnings per share from continuing operations rose 18% to $3.38 from $2.87 over last year.

The income and earnings per share results reflect, in part, the revenue earned from the sale of 4,700,000 shares of Alco Health Services Corp. common stock.

Med Shoppe posts gains

ST. LOUIS — Medicine Shoppe International, the nation's largest franchised pharmacy chain, announced that net earnings for the fiscal year ended Sept. 30 increased 32% to $2.96 million from $2.24 million last year.

Revenues for the year were up 23% to $13.89 million from $11.31 million a year ago.

Medicine Shoppe also achieved record sales of 147 new franchises for fiscal 1985, up from the gain of 103 a year earlier. The company also announced that it had a record backlog of 169 signed franchise agreements, a 44% increase in the number of signed agreements over last year.

Big B's sales rise in 3rd

BIRMINGHAM, Ala. — Big B's sales for the third quarter ended Sept. 30 rose 24% to $38.5 million from $31.1 million over the same period last year. Net earnings for the quarter increased 22% to $668,000 from $546,000.

Nine month sales for fiscal 1985 increased 21% to $121.8 million from $100.3 million. Net earnings rose 11% to $2.89 million, or 44¢ a share, from $2.61 million, or 40¢ a share in the corresponding 1984 period.

Big B was spun off from Bruno's in 1981, and the chain currently operates 114 stores including 106 Big B Discount Drug Stores, three Home Health Care Centers and five B-Mart food/drug combos.

		STOCK PRICE							TREND TO MARKET				EARNINGS/SHARE					P/E	DIVIDENDS			FINANCIAL POSITION				
		From 11/01/85 - 11/18/85							Price Trend (% per day)		Volume Trend (% per day)			Latest 12 Months vs Preceding 12 Months Change		5-Year Annual Growth Rate	Profit Margin		Indicated Dvd. rate		Last X-Dvd. Date	Last Fiscal Year		Current Ratio	Last Fiscal Year (Per Share)	
Name	Symbol	High	Low	Close	Change Amt	Change Pct	52-Week High	52-Week Low	Last 30 Days	Last 5 Days	Last 30 Days	Last 5 Days	Last Fiscal Year	Amt.	Pct			Latest P/E Ratio	Amt.	Yield		Revenue	Earnings		Long Term Debt	Common Stock Equity
-	-	$	$	$	$	%	$	$	%	%	%	%	$	$	%	%	%	-	$	%	-	$ Mil	$ Mil	-	$	$
Chain Store transactions																										
Am Stores	ASC	68.25	63.38	65.00	1.38	2.16	68.25	35.38	.21	-.94	-.88	23.87	5.71	1.67 S	42.0	34.0	1.5	11.5	.64	1.0	09-16-85	12118.8	185.5	1.2	37.93	21.40
Begley Co	BGLY	16.50	16.00	16.00	.00	.00	17.63	15.00	-.25	-.30	-5.81	-75.00	1.26	-.07 Q	-5.0	3.0	1.1	12.1	.72	4.5	07-15-85	66.1	.7	1.7	13.77	18.84
Big B	BIGB	14.50	14.00	14.00	.00	.00	19.50	10.63	-.44	-.91	.76	9.61	.68	.11 N	18.0	19.0	3.0	19.4	.00	.0	09-21-83	148.1	4.4	2.3	1.20	4.58
Drug Sys	DRGS	4.38	4.13	4.38	.13	2.94	6.13	3.38	-.31	.86	-.96	-1.72	.35	-.12 Q	-24.0	NC	1.2	11.5	.60	13.7	05-09-85	104.7	1.3	3.2	1.13	6.18
Eckerd, Jack	ECK	30.25	28.88	30.13	1.25	4.33	32.88	20.00	-.21	.28	-5.71	27.03	-.22	-2.49 F	-100.0	NC	-.3	NE	1.04	3.5	09-09-85	2508.5	-8.3	1.6	2.64	14.49
Fay's Drug	FAY	8.75	8.00	8.25	-.25	-2.94	13.00	8.00	-.53	-.41	5.63	4.63	.62	-.22 S	-33.3	33.0	2.4	18.8	.20	2.4	09-23-85	366.7	8.7	1.8	1.65	4.28
Genovese Drug	GDX	12.25	10.00	12.00	1.88	18.52	15.88	9.13	.06	4.01	3.30	-1.41	1.03	.07 S	6.8	40.0	1.9	10.9	.20	1.7	09-24-85	220.3	4.1	1.7	2.06	5.73
Longs Drg Strs	LDG	28.38	26.63	27.38	-.75	-2.67	31.13	21.38	-.04	-.65	-4.93	4.00	1.88	.14 S	7.8	9.0	2.9	14.2	.72	2.6	08-27-85	1375.8	40.1	2.1	.00	12.23
Medicare Glaser	MGCO	5.00	4.50	5.00	.50	11.11	6.25	3.50	-.20	3.02	2.70	-1.96	.05	-.38 *	-88.4	NC	.2	NM	.00	.0	00-00-00	81.7	.2	2.2	3.58	3.52
Perry Drug	PDS	18.38	16.75	18.13	1.38	8.21	18.38	10.75	.55	.38	-2.57	3.82	.84	.09 N	11.0	14.0	2.1	19.9	.19	1.0	09-11-85	370.3	7.6	1.5	1.60	7.07
Revco Drug	RDS	27.63	26.25	26.88	-.38	-1.38	29.50	22.50	-.20	-.19	-3.94	7.94	1.06	-1.61 Q	-63.9	-1.0	1.6	29.5	.80	3.0	08-19-85	2395.6	38.9	1.7	1.22	12.48
Rite Aid Corp	RAD	25.00	22.63	24.00	1.25	5.49	33.50	21.50	.02	-1.01	-1.72	-14.16	1.69	.13 S	8.2	9.0	4.8	14.0	.50	2.1	10-07-85	1445.7	69.9	1.9	2.02	8.58
Thrifty Cp	TFD	24.13	22.00	23.63	.13	.53	24.50	18.13	.76	.13	.73	-25.28	1.40	.24 N	18.2	15.0	2.1	15.1	.60	2.5	05-06-85	1299.3	27.9	1.5	4.46	7.72
Walgreen Co	WAG	28.00	24.25	27.88	2.50	9.85	30.25	20.50	.29	.26	-1.31	29.22	1.53	.14 F	10.1	21.0	3.0	18.2	.50	1.8	11-05-85	3161.9	94.2	1.7	.87	6.76
Wholesaler's transactions																										
Bergen Bruns	BBCA	30.38	29.00	30.25	.63	2.11	32.38	20.50	.31	.20	2.61	35.70	1.91	.34 F	21.7	16.0	1.0	15.8	.32	1.1	10-28-85	2434.9	24.2	1.7	11.68	12.68
Bindley Wstn	BIND	10.25	7.75	8.50	-1.50	-15.00	15.00	7.75	-1.03	1.22	5.44	-44.15	.73	.15 N	23.4	23.0	.8	10.8	.00	.0	05-01-85	566.7	4.7	1.4	.08	5.46
Cardinal Distrb	CDIC	17.50	16.50	17.50	1.00	6.06	18.50	10.91	-.06	.00	9.81	36.12	1.01	.21 S	23.1	NC	1.2	15.6	.08	.5	10-08-85	320.0	3.7	1.7	.94	8.85
Durr Fillauer	DUFM	11.00	9.25	11.00	1.13	11.39	15.25	9.25	-.37	.98	3.16	-45.22	.74	.07 N	9.9	14.0	1.7	14.1	.14	1.3	07-01-85	341.7	5.8	2.3	1.21	6.05
Foxmeyer Cp	FXM	25.50	22.00	24.38	2.00	8.94	29.75	21.00	-.08	-1.36	-.31	-37.33	1.56	.02 S	1.3	26.0	1.3	15.5	.00	.0	00-00-00	717.1	9.0	2.8	17.31	16.51
Ketchum	KCH	20.25	18.13	18.13	-1.00	-5.23	22.97	13.47	-.19	-2.04	-4.24	15.28	.56	-.03 Q	-4.9	NC	.2	31.3	.00	.0	09-23-85	273.7	.6	1.4	7.87	7.52
McKesson Cp	MCK	51.38	47.75	50.63	2.63	5.47	51.38	37.00	.04	.02	1.64	1.95	3.60	.02 S	.5	-1.0	1.3	13.5	2.40	4.7	11-25-85	4887.1	65.0	1.5	12.99	30.40
Moore Med	MMD	21.00	20.25	20.38	-.63	-2.98	22.50	8.81	.33	.02	-5.16	5.42	1.02	.45 N	47.4	18.0	2.9	14.6	.00	.0	05-23-85	115.4	3.3	3.3	2.45	5.25
Owens & Minor	OBOD	14.75	14.00	14.75	.75	5.36	16.63	8.00	-.69	.58	-5.19	40.80	.95	.23 N	26.1	16.0	1.2	13.3	.28	1.9	09-10-85	306.7	3.6	3.0	5.35	8.54
Manufacturer's transactions																										
Abbott Labs	ABT	62.00	58.25	61.75	2.63	4.44	62.00	38.63	.17	.17	-.07	-11.79	3.34	.52 N	16.3	17.0	13.0	16.6	1.40	2.3	10-08-85	3104.0	402.6	1.9	3.91	13.33
Am Home Prod	AHP	60.38	57.25	59.63	1.25	2.14	66.88	49.88	-.02	-.28	-1.06	2.46	4.39	.26 N	6.0	11.0	15.1	13.0	2.90	4.9	11-06-85	4485.5	675.6	3.4	.26	13.74
Baxter Travenol	BAX	14.50	12.63	14.13	1.25	9.71	16.88	11.75	-.25	2.28	6.36	-6.45	.21	-1.06 N	-82.8	-25.0	1.6	64.2	.37	2.6	09-09-85	1800.4	29.0	1.6	1.46	7.83
Block Drugs Co	BLOCA	46.00	42.50	46.00	3.50	8.24	46.00	28.16	.34	1.01	3.21	28.79	3.48	.40 S	12.1	12.0	10.5	12.4	1.00	2.2	08-27-85	247.8	25.9	2.4	3.28	22.47
Bolar Pharm	BLR	16.75	14.13	16.25	1.38	9.24	22.63	11.25	.35	-.72	2.42	-14.06	.61	.13 S	22.8	23.0	18.2	23.2	.03	.2	08-06-85	29.1	5.3	7.5	.00	3.70
Bristol-Myers	BMY	64.63	57.88	62.50	4.63	7.99	66.50	47.25	.15	-.19	.67	-17.15	3.45	.42 N	12.5	14.0	11.3	16.6	1.88	3.0	09-30-85	4189.4	472.4	2.5	.75	15.63
Carter-Wallace	CAR	46.88	44.50	46.25	1.50	3.35	46.88	24.75	.47	.04	-.11	-33.69	2.66	.77 S	30.1	21.0	5.9	13.9	.60	1.3	11-01-85	348.8	20.7	2.2	1.53	23.37
Forest Labs	FRX	29.25	26.88	28.75	1.25	4.55	32.50	12.50	.49	1.36	2.92	3.61	.73	.36 S	67.9	15.0	17.4	32.3	.00	.0	01-14-83	24.1	4.2	4.5	.22	5.90
ICN Pharm	ICN	11.38	10.50	10.75	-.13	-1.15	12.25	8.38	-.06	-.91	-.26	-9.16	.00	-.09 S	-47.4	NC	1.6	NM	.00	.0	00-00-00	44.8	.7	3.0	2.43	4.50
Key Pharm	KPH	9.88	7.63	9.50	1.75	22.58	12.75	7.13	-.17	.29	4.32	20.27	.61	-.04 S	-6.7	57.0	14.6	17.0	.20	2.1	09-09-85	151.1	22.1	3.4	2.52	1.60
Lilly Eli Co	LLY	100.25	93.63	98.88	4.13	4.35	100.25	61.50	.17	-.34	-.25	-3.72	6.73	.48 S	7.4	9.0	15.8	14.1	3.20	3.2	11-08-85	3109.2	490.2	1.7	1.63	31.04
Lee Pharm	LPH	7.13	6.63	6.88	-.25	-3.51	9.63	2.13	-.29	.05	-5.54	48.57	.13	.62 N	NE	NC	6.2	19.1	.00	.0	00-00-00	8.1	.5	3.0	.20	1.73
Marion Labs	MKC	45.25	40.00	43.25	2.25	5.49	45.25	19.00	.80	-.93	1.01	-11.54	.94	.39 Q	56.5	36.0	12.2	40.0	.28	.6	09-16-85	295.7	36.2	2.1	.00	4.17
Merck & Co	MRK	123.38	117.13	121.63	4.00	3.40	123.38	87.75	.16	-.19	.08	11.87	6.71	.71 N	10.9	6.0	13.8	16.8	3.20	2.6	08-30-85	3559.7	493.0	2.0	2.48	35.29
Morton Thiokol	MTI	36.25	32.25	35.13	1.75	5.24	38.00	25.25	-.11	-.08	.41	-4.78	2.50	.29 Q	12.8	21.0	6.7	13.8	.70	2.0	11-18-85	1832.3	122.8	1.8	3.25	15.00
Mylan Labs	MYLN	17.25	15.25	17.00	1.25	7.94	26.00	11.38	.28	-.28	-3.08	-20.19	.52	.38 S	115.2	64.0	23.3	23.9	.05	.3	02-19-85	53.6	12.5	5.9	.09	1.22
Newport Pharm	NWPH	11.88	10.88	11.25	-.63	-5.26	13.75	5.38	-.14	.27	-3.05	2.57	.05	.15 Q	NE	NC	6.7	NE	.80	7.1	05-23-85	9.0	.6	3.2	.21	.96
Par Pharm	PARP	18.75	15.25	18.25	1.00	5.80	23.25	8.50	-.16	4.16	2.95	38.03	.47	.09 N	22.0	NC	16.5	36.5	.00	.0	00-00-00	17.0	2.8	3.3	.00	1.84
Pfizer Inc	PFE	50.50	47.00	50.25	3.00	6.35	53.75	37.63	.13	-.14	-1.30	1.01	3.08	.37 N	12.3	15.0	13.2	14.8	1.48	2.9	07-26-85	3854.5	507.9	2.3	2.10	15.45
Reid Prov Labs	REID	5.13	4.75	5.00	.00	.00	6.63	3.00	.63	.34	-3.67	24.53	.13	.00 F	.0	28.0	6.0	38.5	.04	.8	12-10-84	16.6	1.0	3.1	.02	.92
Robins, AH	QRAH	11.88	10.63	11.75	.63	5.62	24.38	5.50	1.16	.50	-2.01	5.79	-18.44	-18.79 N	-100.0	NC	-73.0	NE	.00	.0	11-19-84	631.9	-461.6	1.7	.47	-5.23
Rorer Group	ROR	41.25	37.00	37.13	-4.50	-10.81	47.00	24.00	-.70	-1.87	-4.55	38.21	2.08	-.04 N	-1.9	4.0	8.5	18.2	1.12	3.0	11-04-85	522.1	44.3	1.9	2.18	11.07
Scherer RP Co	SCHC	12.75	12.00	12.38	-.13	-1.00	13.50	8.75	-.38	-.78	-.76	-16.76	-.43	-.96 S	-100.0	NC	-2.0	NE	.32	2.6	09-11-85	167.4	-3.4	1.7	4.07	9.72
Squibb Corp	SQB	76.38	70.63	73.63	1.00	1.38	76.38	49.75	.03	-.47	1.15	-14.03	3.68	.46 N	12.9	21.0	10.5	18.3	1.76	2.4	08-12-85	1886.0	197.2	2.3	3.74	24.87
Sterling Drug	STY	36.63	34.38	34.75	-.63	-1.77	37.13	26.25	-.32	-.35	-2.73	2.42	2.37	.13 N	5.6	4.0	7.8	14.1	1.20	3.5	11-07-85	1827.3	143.4	2.6	1.32	15.34
Syntex Corp	SYN	74.38	71.00	71.75	-1.38	-1.88	74.38	46.25	.24	-.32	-1.37	13.60	4.65	.57 F	14.0	16.0	15.8	15.4	2.40	3.3	11-12-85	948.5	150.0	2.1	5.36	18.81
Thompson Med	TM	14.88	11.75	11.75	-3.13	-21.01	18.38	11.75	-.94	-1.97	-.22	10.67	2.20	-1.04 N	-46.0	15.0	10.8	9.6	.40	3.4	09-24-85	197.2	21.2	4.3	.00	7.09
Upjohn Co	UPJ	131.75	122.25	128.13	4.50	3.64	131.75	63.75	.23	-.21	-.82	-20.87	5.67	.39 N	6.9	1.0	8.0	21.1	2.80	2.2	09-27-85	2179.1	173.3	1.7	12.47	37.00
Warner-Lambrt	WLA	41.00	37.13	39.38	2.00	5.35	46.50	32.50	.16	-.45	-4.42	-10.58	2.81	.27 N	9.7	7.0	7.1	13.0	1.56	4.0	11-04-85	3166.7	223.9	1.7	6.47	18.18
Zenith Labs	ZENI	27.50	23.50	25.00	1.25	5.26	29.50	5.50	1.01	-1.34	-.87	10.50	.28	.97 N	510.5	89.0	7.7	21.6	.00	.0	06-19-85	37.5	2.9	2.6	.27	1.99

All data are based on sources believed to be reliable, but its accuracy is not guaranteed. Every effort will be made to correct errors, when discovered, in future issues.

Footnotes:

NA - Not Applicable
NC - Not Calculable
NE - Negative Earnings
NM - No Meaningful Figure
Q - First Quarter
S - First 6 Months
N - First 9 Months
F - Fiscal Year

Data and Table Prepared by Media General Financial Services, Inc., Richmond, Virginia 23219

Store wars: 7 hottest markets

How battles shape up in 7 markets

DETROIT
1984 drug store sales: $1.1B
Key players: Perry, Revco, Arbor, Sentry, F&M
PHILADELPHIA
1984 drug store sales: $893.5M
Key players: Rite Aid, Thrift, CVS, Drug Emporium
WASHINGTON, D.C.
1984 drug store sales: $813.4M
Key players: Peoples, Gray Drug Fair, Dart, Revco, Rite Aid
ST. LOUIS
1984 drug store sales: $386.5M
Key players: Medicare-Glaser, Walgreens, SupeRx/Gasen, SupeRx/Drug World
PHOENIX
1984 drug store sales: $488.5M
Key players: Revco, Walgreens, SupeRx, Thrifty, Smitty's
ATLANTA
1984 drug store sales: $436.9M
Key players: Eckerd, Revco, Reed
DALLAS/FORT WORTH
1984 drug store sales: $544.9M
Key players: Revco, Eckerd, Skaggs, Page

Sources: S & MM Survey of Buying Power, A. C. Nielsen and *Drug Store News* surveys.

Growth-minded drug chains have no place to run, no place to hide.

Head-to-head confrontations are fiercer and more frequent, and are driving operators toward new competitive stances as they vie for bigger pieces of the nation's $44 billion retail drug trade.

In this special year-end Store Wars report, *Drug Store News* is focusing on seven key markets where growth is exciting, the fights most intense and strategies most creative.

From border to border and east to west, activities nationwide mirror those of the seven: Dallas, Atlanta, Detroit, Philadelphia, Phoenix, St. Louis and Washington, D.C. Chains growing here, often at the expense of independents, read like an industry Who's Who: American Stores, Walgreen, Jack Eckerd, Revco, Longs, Rite Aid and more.

They've whipped out their guns in no-holds-barred efforts to dominate these seven primary metropolitan areas. And the stakes are high: These markets accounted for $4.7 billion of retail drug volume in 1984, or about 11% of the industry total.

However, these metro areas account for the lion's share of industry growth in '85, and are expected to play a continuing prominent role in the expansion of drug sales through the rest of the decade.

How are traditional chains aiming to throw the deep discounter invasion off course? What can independents do to hinder chain growth on their home turf?

How will supermarket merchandising of health & beauty aids shape industry approaches in the next few years? What can any drug store operator do in the shadows of membership warehouse chains, should they decide to go after the H&BA business in a big way?

These are some of the issues uncovered by *Drug Store News'* reporters in this special section on some of the nation's fastest-growing retail drug markets. You, the reader, may or may not want to be in these metropolitan areas after digesting this coverage.

For instance, the encroachment on drug store trade in Philadelphia is coming from many directions: Pathmark and Acme supermarkets, Price Club and PACE membership warehouse chains. Then there are deep discounters and independents lobbying for legislation to put the brakes on chain penetration there.

In that market, Rite Aid has converted two stores into deep discount formats, Pathmark cut H&BA prices across the board and Thrift emphasizes low prescription prices. It's a whirlwind of positioning strategies.

In Dallas-Fort Worth, retailers burrowed in anticipating further population growth, which could spell doom for some if that growth doesn't materialize. The metroplex already has one of the highest ratios of retail space per person in the country, and is already heavy with combination stores.

Tom Thumb/Page, Eckerd and Albertson's are all expected to expand here in 1986, squeezing a market that's already uptight about the lack of pharmacists.

In Detroit, operators such as Revco, Arbor, Sentry and F&M might understandably wish they could strip Perry of some of its dominance in prime locations—a key to its market strength—and enjoy a similar rapport with shopping center developers.

Meanwhile, price pressures in Atlanta have set ablaze a costly advertising war, that has the *Atlanta Journal* delivering 30%-40% more preprints each year since 1983 for drug chains operating here.

The invasion of health maintenance organizations in Atlanta, such as Kaiser Permanente Medical Group, the nation's largest, also promises to make life more miserable for independents.

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Store wars: 7 hottest markets

Philly drug retailers face expansion hurdles

By Al Heller

PHILADELPHIA — Tourists may find the city of brotherly love inviting, but drug chains realize that the market's getting tougher to embrace.

Operators eying expansion here in the late 80's will face many competitive hurdles: encroachment by deep discounters, rising rents and the lack of available prime sites, heavy advertising expenditures and efforts by local independents to introduce legislation that would limit the number of pharmacies per set number of blocks.

Whether such legal efforts could stick is questionable, but such talk demonstrates the militance of independents, who appear determined to keep their share of the $894 million drug retail market.

The city is a patchwork of neighborhoods. Walk-ins are the lifeblood of the retail drug trade here, according to local managers. "The [Delaware] River that splits the city, and Philly's poor road system, keep people from traveling far to shop," said CVS senior vice president-marketing Gary Charboneau.

"But you don't mind much because of the population density," added Drug Emporium vice president-operations Gary Wilber.

Independents who owned this city's neighborhood trade until several years ago have seen Rite Aid, Thrift and CVS make significant inroads here (about 240 stores collectively) in the 80's and are aiming to slow chain growth on their home turf.

Besides the approximate 1,000 independent stores operating here, the traditional drug chains are being squeezed by newcomers Drug Emporium and Rx Place, who deep discount.

Drug store sales as a % of total retail sales

Source: S & MM, 1985

The entry by Drug Emporium, with 12 company-owned stores here in 1985, will grow to 20 by the end of next year, giving the chain ample presence to buy continuous television advertising and help set a low price tone for the market.

Rx Place, an F. W. Woolworth spinoff, is satisfied with performance of its first two stores and will expand here in 1986, said president Ken Colson. Advertising for "several months beyond grand openings" is also part of his strategy.

Pricing pressures in the market will intensify further when Price Club and PACE, two membership warehouse chains which generate about $50 million annually per unit, establish their presence here. Such clubs sell consumables and general merchandise—including health & beauty aids—mostly to small business owners for resale or office use.

They could have dramatic impact on drug retail operations here because their opportunistic buying methods are so similar to deep discount operators.

Warehouse clubs could escalate price wars in two ways: by supplying independents with some H&BA products at lower costs than now available from their wholesalers, giving the smaller local stores new merchandising punch; and by building their own strong price image with customers who qualify to shop their clubs because of where they're employed.

Price Club was set to open its first unit here by year's end, and PACE is targeting two sites in 1986.

The city has seen two highly visible reactions to the entry of deep discounters earlier in 1985. Rite Aid converted two traditional stores into Drug Palace deep discount formats. Pathmark, in a much publicized move, cut its H&BA prices across the board—although several market sources felt this would be a short-lived attempt to flush out the deep discounters.

Thrift had already adopted a low price prescription policy, touted on in-store signage, as one of its distinguishing points. Store observations also revealed Thrift's knack for displaying general merchandise in a high impulse manner: Christmas gift items were well in place before other chains had their displays set. At Thrift, seasonal merchandise took almost every mid-store endcap and prime browsing space by the pharmacy.

Rx Place was the only other drug chain to have Christmas displays on the floor in early November, but were virtually all candies and cheeses. Thrift had the clear early lead on chains here this season, selling blood pressure monitors, subcompact microwave ovens, personal care appliances, luggage and other gifts.

One of the converted Rite Aid stores, in northeast Philadelphia, didn't appear to be a match for the Drug Emporium one block away. It was far smaller, at about 8,000 sq. ft. compared to 23,000 sq. ft., and couldn't achieve the same inventory depth—even stacking in-line merchandise 7 ft. high.

The conversion was purely a defensive measure, said market sources, and probably doesn't reflect what Rite Aid can do with other deep discount layouts, as it has in New York. The store deviated from prevailing Rite Aid strategy to open deep discount stores in markets where it has few conventional drug stores.

The store's assortment relied heavily on traditional drug store departments and Rite Aid store brands—compared to other deep discounters which rely more on the appeal of brand names and general merchandise.

"The low prices of deep discounters scare chains which want people to think they're the lowest priced," said Pat Tancredi, president of Tancredi Apothecary, a three store independent here.

Having watched the influx of chains over the years, Tancredi added: "Chains come in. They price cheap and advertise cheap. Once they build up their customer base, they raise prices. That's why the chains are sweating over the deep discounters.

"Thank God people are more hep. We have customers who just wouldn't leave us," he said.

Drug retailing may be, but real estate isn't, according to Drug Emporium's Wilber. "Landlords aren't loyal in Philly as elsewhere. It's tougher to get a no-compete clause.

"Real estate's gotten much tighter here in the past year than when we first looked at the market," Wilber added. "Our penetration here is faster than anything we ever did."

He felt his format store could coexist with K mart and Clover discount department stores because H&BA is much less important to them, and Drug Emporium would benefit by traffic falloff.

He estimated that high volume deep discounters could eventually account for 25% of retail drug sales in the market, despite being greatly outstored.

Current estimates place Rite Aid and Thrift equal in city store counts, at about 55 apiece, but Rite Aid owns the suburbs with another 80 stores compared to Thrift's 15. The two chains account for nearly half the market's retail drug sales: Rite Aid, 25%, and Thrift, 20%.

CVS has 35 stores in the market, Eckerd about 10, Drug Emporium nine (to be 12 by year's end). There are also more than 30 K marts, 14 Clovers and 18 Jefferson Wards (soon to be Bradlees), plus about 20 Pathmarks among major retailers vying for drug customers.

Still, Rx Place's Colson is highly optimistic about prospects for his young chain's performance. He expects each store's first year sales of $350 per square foot of selling space to mature at a $600 pace in four to five years.

"Deep discounter business gets built by word of mouth, and it takes time for customers to learn the concept," he said.

"The prospect of getting a bargain excites people," Colson added. "They'll come to the store not knowing quite what bargain they'll find [because 90% of merchandise is bought on deal]. It's one of the appeals of flea markets. When the customer's impulse nature takes over, and she sees a constantly changing brand mix, that comes close to resolving the age old merchandising problem of how to create excitement in the aisles."

That may be a tough psychic matchup for traditional operators here to overcome: shopping as entertainment.

A Drug Emporium manager here, Earl Connell, said he sees many of his senior citizen customers walk in several times each week to buy a handful of items and browse.

Major drug chains in the Philly metro area

Chain	No. of stores
1. CVS	36
2. Rite Aid	159
3. Thrift	89
4. Eckerd	10
5. Merchandisers Inc.	14
6. Rea & Derick	11
7. Drug Emporium	9
8. Revco	7
9. Medic Fair	7
10. Medicine Shoppe	7

Source: A. C. Nielsen

Effective buying income in retail stores

Effective buying income	$55B
Effective buying income per household	$28,146
Total retail sales	$26.2B
Total retail sales per household	$15,097

Source: S & MM, 1985

Major retailers in the Philadelphia market

Major food chains	No. of stores	Major mass merchandisers	No. of stores
American	169	K mart	54
A&P	52	Jefferson Ward	18
Supermarkets General	32	Clover	17
Jewel	32	Jamesway	16
Wetterau	20	Lane	16
Genuardi's	20	Marshall's	8
Weis	17	Ames	6
SHS Enterprises	12	Nichols	5

Source: A. C. Nielsen

Demographic breakout

Population	4.8M
Households	1.7M
Effective buying income	$55B

Source: S & MM, 1985

Market Share

PHILADELPHIA — The nation's fourth largest retail market, at 4.77 million people, as a healthy roster of major drug chains vying for share.

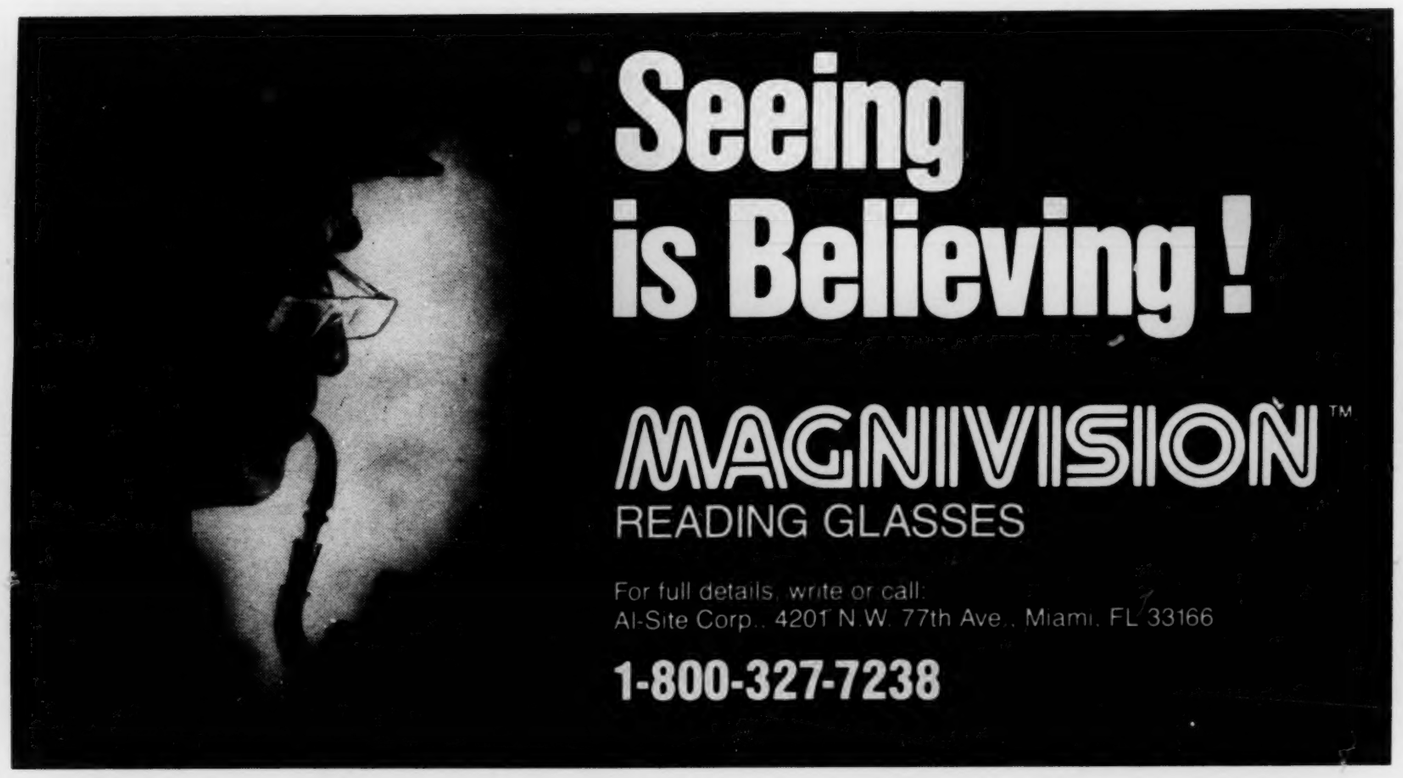
So far, Rite Aid's established the strongest hold, largely at the expense of independents, but it's gotten a lot of company lately.

Deep discounters and membership warehouse chains, who both have far more productive customers than traditional outlets, are moving in. Supermarkets are more aggressive at pricing and advertising health & beauty aids.

Strategies unveiled here in the next few years will make some chains winners and others losers. What are they fighting for?

Philadelphia is the nation's fifth leading retail drug market at $894 million, and produces the fourth largest amount of total retail sales, $26.2 billion in 1984.

The metro area's 1.73 million households have a median effective buying income (EBI) of $28,146. Total market EBI of $55 billion makes Philadelphia the fourth most attractive place on this count.



Store wars

Dallas retailers vie for segment of drug market

By Vicki Moss

DALLAS — A battle for market share is raging in the fast-growing Dallas-Fort Worth "metroplex" as combos and deep discounters proliferate and chains vie to maintain their edge.

Warring over prices and location, the giants open more and more stores. If the swelling population keeps pace, this modern-day range war could end in a draw with each kind of retailer staking a claim to its own segment of the diverse community. But for now, competition is fierce, with no letup in view.

The growth rate of retail stores here has been phenomenal. The area has one of the highest ratios of retail space per capita in the country, according to Dan Feuer, operations manager of Safeway's Drugs For Less, a deep discounter that operates in the market.

In Dallas-Fort Worth there is 29 sq. ft. of retail space per person, compared with 15 ft. nationally, he said. In Dallas alone, the figure is 35 sq. ft.

Pharmacies are contributing to this phenomenon. Eckerd has 80 stores; Revco 103; Safeway has 55 pharmacies in north Texas supermarkets and four deep-discount drug stores in the Dallas-Fort Worth area: Cullum Companies has 13 freestanding Page drug stores and 25 Tom Thumb Page combos, including one Simon David specialty store, to name just a few. One store executive called the area "overpharmacied" and predicted a shakeout if the population should slow.

But according to the Dallas Chamber of Commerce, people have been moving into this 8,360-square-mile area at the startling rate of 1,400 a week. A 1985 headcount by the North Central Texas Council Government showed the population at 3.38 million, compared with a 1980 U.S. census count of 2.9 million. A healthy 21% of these earns more than $25,000 a year, according to a report by A. C. Nielsen.

This sprawling urban community was a natural to become the home of the combo. Skaggs and Albertson's started the trend in 1970 when they joined forces to open eight food/drug combos here with offices in Richardson. By 1977 when they split up they had opened 59 combos in Oklahoma, Arkansas, Texas, Louisiana and Florida. Each got 29, Skaggs in Oklahoma, Arkansas and east Texas, Albertson's in Louisiana, Florida and west Texas. Skaggs got the Richardson offices. Albertson's settled in Orlando, Fla. Now Albertson's has made a comeback in Dallas with four 62,000-sq.-ft. food/drug com-

Continued on page 17

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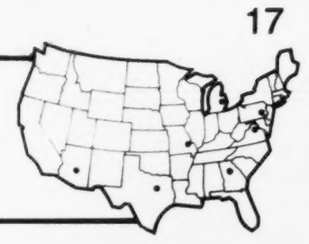
Store wars: 7 hottest markets



Dallas store growth parallels raging drug price competition

Continued from page 16

bos and four more in the works and is giving its old partner and the rest of the competition a run for its money.

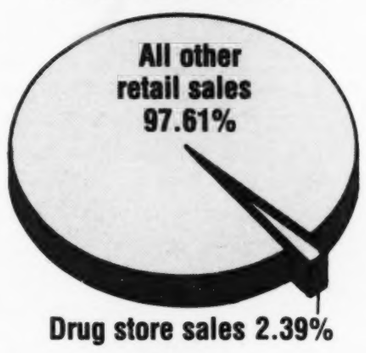
The rest of the competition includes such other combos elbowing their way in for a share of the market as Kroger, Winn Dixie and a local newcomer, Minyard's. Minyard's Sack'n Save 76,000-sq.-ft. deep discount warehouse combo in Waco is one of the largest food-drug combos in the country.

Other deep discounters successfully luring the mobile, car-dependent residents are Safeway's Drugs For Less and Drug Emporium, each with four stores and, another newcomer to the area, the 65,000-sq.-ft. Fazio's.

"The market is a mixed bag right now," said Bill Mansfield, division manager of Page Drug Stores. "It's all up in the air. But maybe there's room in the market for that many different retailers. Hopefully, there'll be enough people."

Both Feuer and Oren Peacock, vp and Dallas division manager of Eckerd, believe the population growth has slowed. Nevertheless, more expansion is planned. Some of the chains would not reveal their plans, but Mansfield said that Tom Thumb/Page plans to open four new combos in 1986 and Peacock said Eckerd also is planning to open several new stores. Albertson's, too, has plans for expansion. As Jerry Merritt, general sales manager of wholesaler Southwestern Drug, put it: "They're just opening up stores. Period."

Drug store sales as a % of total retail sales



Source: S & MM, 1985

The burgeoning growth of the giants is having its effect on the conventional chains and on smaller stores. For one thing, prime lease space is difficult to come by. Smaller chains and independents, in particular, have a hard time getting space and may have trouble affording it. One small chain, Town & Country Drug, grew from eight stores in 1984 to 13 in 1985, but its vp and general manager, Keith Dunavant, said that further expansion would have to be done by acquisition because shopping centers go after the bigger chains to rent to.

Prices, too, are affected by the arrival of the combos. Albertson's, in particular, "hottened things up," as one executive said, when it came in earlier this year and startled the other stores by pricing its merchandise across the board at discount rates. Tom Thumb/Page responded by cutting many of its prices to comparable or even lower levels, Mansfield said. Minyard's also cut prices, and Safeway and Kroger introduced double couponing. "It's very tough on prices," Feuer said.

In this aggressive environment, two conventional chains are holding their share of the $545 million market. Eckerd and Revco held respectable positions in an informal survey conducted for the *Dallas Morning News* by Belden Associates of Dallas. Of the 1,800 shoppers asked where they or someone in their households had shopped in a typical seven-day period, 739 named Eckerd and 347 Revco. Only Safeway, with 752 people naming it, surpassed Eckerd. Albertson's, the prodigal newcomer, was named 190 times.

Eckerd manages to keep its edge by stressing convenience, Peacock said. "We're very selective in what we do," he said. The chain chose its 80 stores to be close to where consumers live and work, he said, "so they don't have to go into the supermarkets."

Major drug chains

Chain	No. of stores
1. Revco	120
2. Eckerd	95
3. Skaggs	19
4. Page	14

Source: A. C. Nielsen

Effective buying income vs. retail sales

Effective buying income	$42.4B
Effective buying income per household	$34,221
Total retail sales	$22.8B
Total retail sales per household	$18,387

Source: S & MM, 1985.

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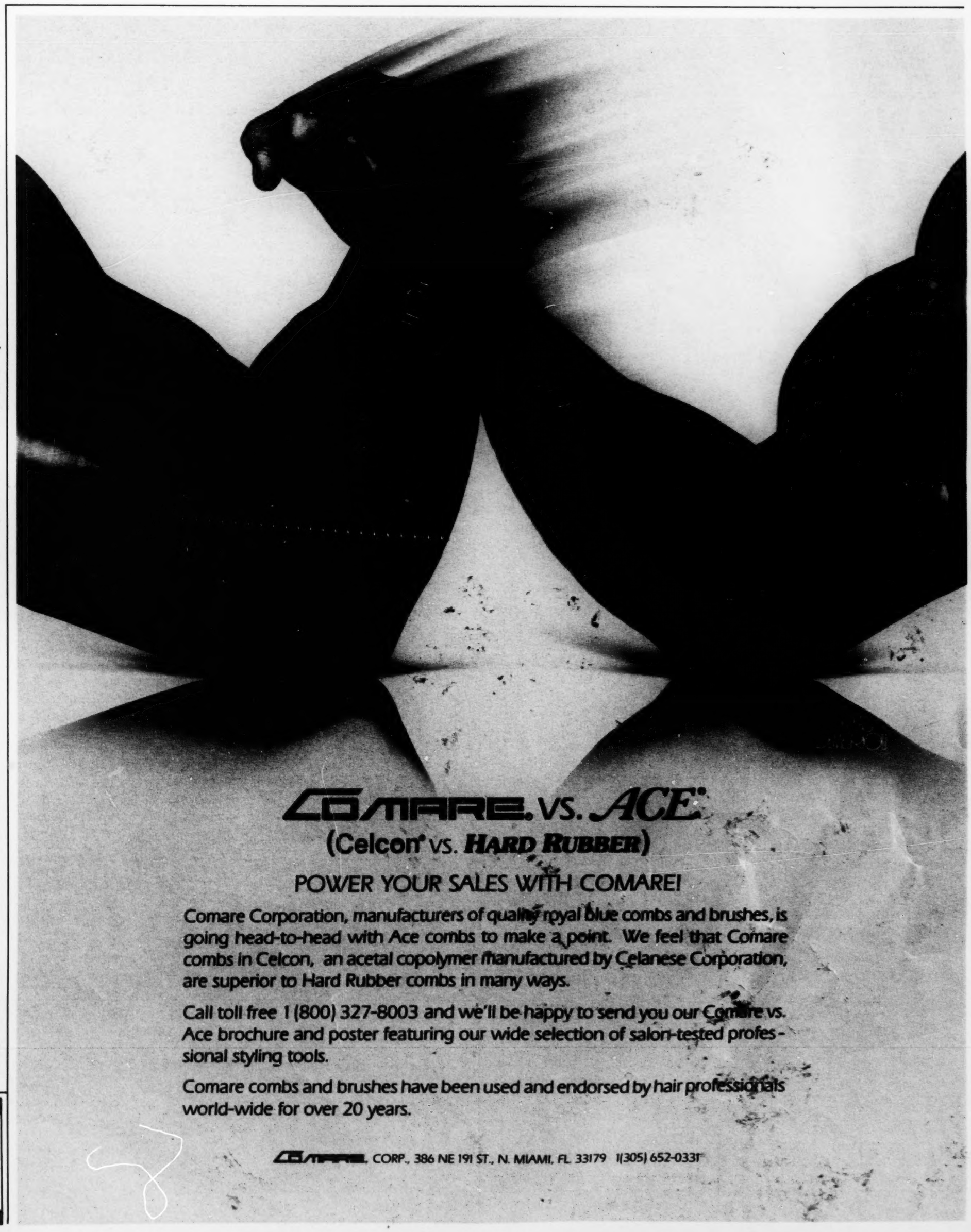
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Store wars: 7 hottest markets

Drug stores expand with Atlanta's population

By Dave Vaczek

ATLANTA — Drug store chains and independents are in hot pursuit of Atlanta's burgeoning drug store market, while trying to stave off a deep discount presence that has flourished with the steady influx of upscale migrants to this evolving Sunbelt city.

Companies including market leaders Eckerd and Reed are planning major new store expansions, mostly in suburban locations that have hosted some of the country's most explosive population and employment growth. That growth has supported a 40% increase in drug store sales to $437 million in the five years from 1980 to 1985.

In only three years, Drug Emporium, leading the deep discount charge, has forced conventional stores to break old pricing and merchandising habits. The deep discounters' aggressive inroads, and the strong presence of combination stores, notably Kroger, have sparked price battles and a storm of newspaper advertising by the chains.

In addition, retailers are refocusing their merchandising efforts at the young, well-educated, and often married, consumers, who make up an increasingly large segment of the market. The median age is 30.

If the scramble for market share is a touch frantic, the potential rewards are also great. The seven-county region surrounding Atlanta (with 90% of the population and 95% of the jobs in the Greater Metro Area) has grown 2.7% a year since 1980, well above the national average. Moreover, planners say Atlanta's 2.3 million population (it is already the nation's 11th largest metro area) should continue to swell as the economy keeps attracting workers.

In keeping with this trend, most drug store companies and market observers perceive a substantial opportunity for building new stores, particularly in Gwinnet and Cobb Counties to the city's north and northwest where the densest growth has occurred. Gwinnet was the country's fastest-growing county from 1980 to 1984, with nearby Cobb in the top 10.

A second ring of regional malls is also cropping up 10 miles from the current city perimeter along the interstate 285 beltway. Called the Golden Crescent, these intense nodes of commercial development are creating a string of shopping centers and malls.

Demographic breakout	
Population	2.4M
Households	870,000
Effective buying income	$28.0B

Source: S & MM, 1985.

Gwinnet Place, which opened two years ago, is the first of four proposed malls along the second ring. It has stimulated tremendous business growth, hotel construction and the spread of suburban neighborhoods.

Reed Drug, owned by Peoples, is targeting new store openings in yet-to-be-developed sites on the market's fringes, anticipating the development. With 56 stores, Reeds plans to add about five stores a year. It is also remodeling and expanding its older 6,000-sq.-ft. stores, closer to the 10,000 sq. ft. of its new prototype.

With 78 stores in six counties, Eckerd plans to open 10 more stores this year, and eight next year.

Drug Emporium, which has opened nine stores since 1982, plans to open six to eight more in 1986. The company is attracted by the dynamic growth, particularly in the north. Drug Emporium reports exceptional success with its existing units, which are grabbing sales away from established players, and changing customers' expectations. All stores—except one opened last month—are turning a profit. "The stores in Atlanta have exceeded expectations, and making money has been no problem," a company official says.

The deep discount concept, also adopted by SupeRx in one of its 11 stores here, seems to be a good marriage with the area's demographics. Aimed at customers who shop less often, but spend more money per trip than in a conventional drug store—$10 to $30 a trip once every three weeks—Drug Emporium is in sync with the price-conscious upscale segment.

The chain's stores are stealing business not only from conventional stores in their immediate neighborhood, but also from mass merchandisers and supermarkets, with heaviest success in H&BA.

Local chains report their customers are more attuned to price, and they have been forced to cut their prices as a result.

"Our customers have been extremely price-conscious in the last couple of years," said Bil Dunaway, owner of Dunaway Drugs, an 18-store local chain with all its stores in Gwinnet and Cobb.

Dunaway said he recently cut prices in paper products, and leading H&BAs. "We're price shopping our competitors, and changing our prices faster to stay with the competition," he said.

The five-store local chain, Wender and Roberts Inc., cut prices 20% to 25% on 200 top-selling items in drugs, H&BA and gm, one year ago—eight months after Drug Emporium opened a store across the street on Fulton County's Roswell Road. Customers in the neighborhood began complaining about Wender's prices, said Don Wender, president.

"At one time, the average person this side of town wouldn't be caught dead in a cut-rate drug store," Wender said.

The smaller local chains are trying to hold onto a traditional emphasis on service, to position themselves as an alternative to the larger chains and to keep giving their customers what they expect. Dunaway has lunch counters in 10 stores, including his two latest recently opened in Gwinnet. Wender and Roberts is keeping charge accounts, emphasizing clerk service and offering home drug delivery.

"We're trying to maintain some kind of flavor that makes us a little bit like the drug store you grew up with," said Dunaway.

The merchandise mix of the chains is evolving to target the shifting audience. Eckerd is promoting discounts on baby products and baby prescriptions, and has added candy, snacks and beverage sections, while following an everyday low price strategy. Revco, with 14 stores, plans to evolve to a more youth-oriented product mix.

Major retailers in Atlanta market			
Major food chains	No. of stores	Major mass merchandisers	No. of stores
Food Giant	73	K mart	39
Colonial/Southern	69	Richway	14
Winn Dixie	68	Zayre	11
Kroger	56	Rose's	7
A&P	26	Wal-Mart	4
Bi Lo	8	Marshall's	4

Source: A. C. Nielsen

Dunaway is promoting a kids' club, featuring discounts on baby prescriptions and expanded baby and toy departments.

Price competition has stimulated fierce advertising by the chains. Preprints delivered by the *Atlanta Journal* and *Constitution* have increased 30% to 40% a year since 1983, while the number of chains advertising has remained the same.

A preprint delivery program provides total market coverage to reach nonsubscribers. This year for the first time preprints will be targeted geo-demographically.

Drug Emporium has used television to put across its low-price image, with the slogan: "Savings so big, you need a shopping cart."

Independents, holding onto about 5% of the market, are rallying on a number of fronts to protect sorely squeezed margins.

A statewide buying group of 130 independents was formed Oct. 10 to pool their buying power for bidding on drugs. Drug Mutual, a 200-member co-op, functions as a wholesaler, and has turned over monthly rebates based on discounts it receives to its members since 1929. Wholesale buying is critical for many independents. Says a state pharmaceutical official: "We're able to buy for close to what the chains can."

Meanwhile, health maintenance organizations have become a statewide force. "A year and a half ago, a lot of pharmacists here didn't know what an HMO was," said one observer.

Kaiser Permanente Medical Group of California, the nation's largest health maintenance organization, is the latest. The already established Ameriplan is aiming at 60,000 subscribers by year's end. The American Association of Georgia, meanwhile, is planning a statewide HMO. The HMOs' exclusive contracts with chains is a threat the independents hope to counter with an independent practice association, now being formed, to compete for contracts.

Supermarket and discount stores are also claiming their share of drug and H&BA sales. Kroger has 47 stores in the seven-county metro region, including 23 superstores, with 30,000 to 40,000 sq. ft., which include specialty departments and H&BA sections. Kroger opened three combination stores and closed two this year, leaving 24 of the 40,000- to 60,000-sq.-ft. stores, which include specialty departments, sitdown restaurants and H&BA sections.

K mart, boasting the largest presence among the discount chains with 39 stores, features pharmacies in the majority of them.

Food Giant, claiming the largest supermarket presence with 79 stores, introduced its first Cub warehouse store in May, in Gwinnet County, and has one under construction in DeKalb County. The 76,000-sq.-ft. store operates with the same high volume, low markup concept employed by the deep discounters—which it calls "assured minimum pricing." The store emphasizes low-priced groceries and perishables, and also includes a pharmacy.

Observers are upbeat about the region's long-term growth, with projections calling for a population of 3.5 million by 2010. In the short term, population and employment declines from the exceptionally high levels of the past two years have injected a note of caution and concern about overbuilding. The region was caught badly overbuilt, mostly in commercial space, in the mid-1970's recession.

While their success isn't guaranteed, there will be a lot of opportunities for drug stores to open, as the regional malls extend the limits of the suburbs. And Atlanta's diverse economy, with 20% in service, 16% in government and 16% in retail, will continue to attract the upscale consumer.

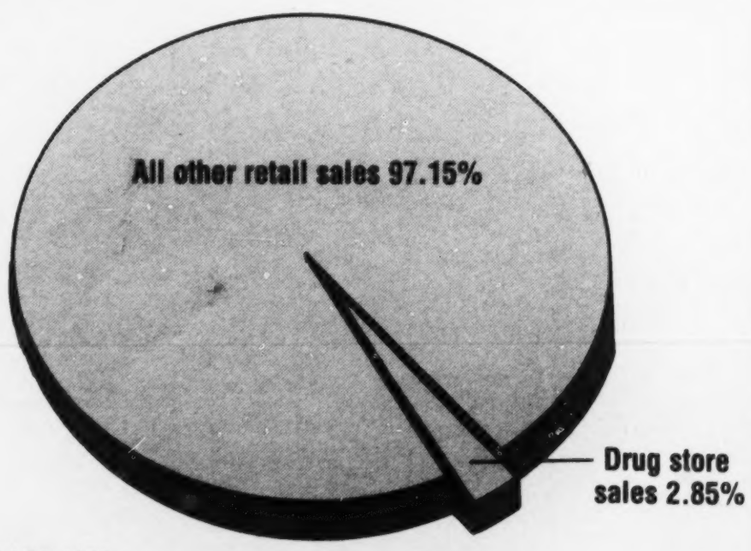
Major drug chains in the Atlanta market	
Chain	No. of stores
1. Eckerd	76
2. Revco	75
3. People's/Reed	53
4. Treasury	24
5. Dunaway	14
6. SupeRx	12

Source: A. C. Nielsen

Effective buying income vs. retail sales	
Effective buying income	$28.0B
Effective buying income per household	$28,610
Total retail sales:	$15.3B
Total retail sales per household	$17,557

Source: S & MM, 1985.

Drug store sales as a % of total retail sales



Source: S & MM, 1985.

Store wars: 7 hottest markets

Four chains vie for DC's upscale shoppers

By Ken Rankin

WASHINGTON — Picture a major drug store market blessed with lower than average real estate costs, a moderate level of price competition, relatively low wage rates and a 50-50 split between chains and independents.

Those conditions might still exist somewhere—but certainly not in the pressure-cooker Washington, D.C. market where three major chains have been locked in a dogfight for the area's affluent drug store shoppers for much of the past quarter century.

To outsiders from such distant provinces as Arizona, Indiana or Oregon, the nation's capital could well come across as a marketplace nightmare that is already saturated, overly competitive and too expensive.

And indeed, there is some evidence to support those conclusions. Conservative estimates peg retail location costs within the Washington Metropolitan Area at least 10% above the norm in most other major U.S. markets, and wage rates in the region are even further out of kilter with the national average.

The area's "big three" drug chains—Peoples, Gray Drug Fair and Dart—are already operating more than 300 units in the District and its nearby Maryland and Virginia bedroom communities, and there's a scramble to sew up additional locations at virtually every strip center, mall or renewal project on the drawing boards.

The level of price competition varies from "tough on a good day" to downright devastating during the occasional drug store price wars that seem to flare up regularly with little warning and even less provocation.

Even D.C.'s independents are a cut or two above average. With chains controlling 75% or more of the market (depending on your geographic definition of metro Washington), the "push-over" indys were pushed out years ago. Those that remain ("large," $500,000 and up independent pharmacies own about 15% of the pie) are often tough as nails.

As a result, all three of the Washington area's drug chain market share leaders have had difficulty maintaining profitability *and* market share at the same time.

But is the D.C. market really the drug store industry's "Temple of Doom?" Not according to veteran chain execs familiar with both the pressures and the payoff for successful drug store operators in Washington's upscale and almost recession-proof marketplace.

By even the most restrictive yardstick, Washington ranks as one of the dozen largest metropolitan areas in the nation—and some surveys using a more geographically liberal definition (including such outlying Maryland and Virginia counties as Frederick, Charles, Calvert, Prince William and Stafford) peg the D.C. market No. 6 in the U.S. with a total population approaching 3.5 million.

But size alone is only part of the attraction. The Washington, D.C. area also ranks as one of the highest income areas in the nation.

Here's how the key players stack up:

- Peoples, the "grand dame" of D.C. drug store scene, remains the undisputed leader in store count with more than 150 units scattered through the city of Washington and suburbs on both sides of the Potomac. The Alexandria, Va.-based chain still controls

Continued on page 22

Major retailers in Washington market

Major food chains	No. of stores	Major mass merchandisers	No. of stores
Safeway	139	K mart	28
Giant	94	Zayre	14
A&P	41	Luskin's	13
Weis	9	Rose's	6

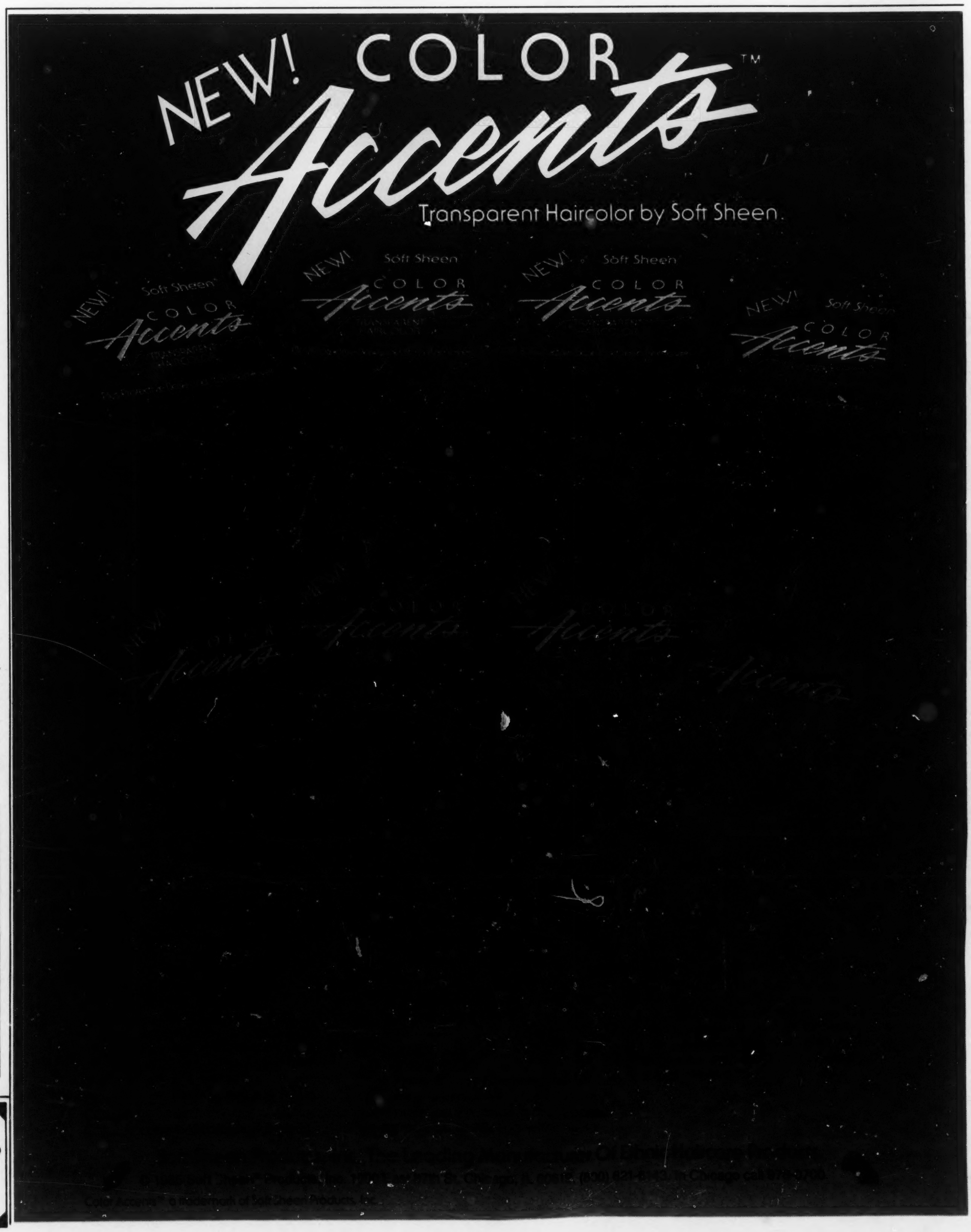
Source: A. C. Nielsen

Major drug chains*

Chain	No. of stores
1. Peoples	172
2. Gray/Drug Fair	99
3. Dart	58
4. Revco	20
5. Rite Aid	17
6. Thrift	4

*As of late 1983

Source: A. C. Nielsen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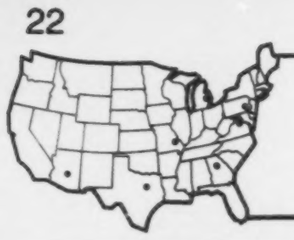
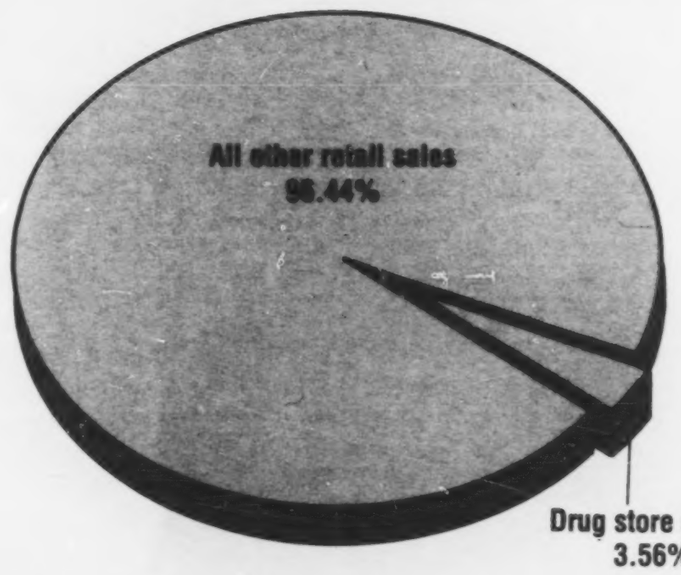


Store wars: 7 hottest markets

Drug store sales as a % of total retail sales



Source: S & MM, 1985

Maintaining share of market and profitability a problem

Continued from page 21

an estimated 24% share of dollar sales in the Washington drug store market, but according to recent projections that's not good enough to remain No. 1 in overall volume.

• Dart Drug, with 29% of the market, is the overall sales leader in metro Washington now, even though the chain ranks no better than third in store count with nearly 70 units. Unlike Peoples, which continues to maintain a sizable presence in the city of Washington (some three dozen units, all traditional drug stores) Landover, Md.-based Dart has focused the lion's share of its growth to date on "superstores" in the Maryland and Virginia suburbs.

Demographic breakout	
Population	3.4M
Households	1.3M
Effective buying income	$50.5B

Source: S & MM, 1985.

• Gray Drug Fair, the weakest of the "Big Three," nevertheless boasts a 21% market share and some 90-D.C. area units. Like Peoples, GDF concentrates on "traditional" drug store operations, but like Dart the chain has targeted on upscale suburban areas.

• Giant Pharmacies broke into the D.C. market during the 70's with a smattering of food/drug combos, but is now opening "freestanding" drug units and is threatening to become the fourth member of Washington's "big three." With nearly 40 pharmacies in and out of its D.C. area supermarkets, Giant already controls an estimated 9% of the total Washington "drug store" market.

• Other chains nibbling at the corners of the D.C. drug store market include four-store Rodman's (a longtime area discounter), Standard/Medco with 16 units on the fringes of the market, Safeway (18 Rx departments in its area supermarkets) and Drug Emporium (four units scattered strategically through the suburbs).

• Independents in the Washington market include some 300 serviced by District Wholesale Drug, which together account for less than 15% of the total dollar sales by area drug stores.

Significantly, each of the three top D.C. area chains changed hands in recent years—Peoples going to Montreal-based Imasco earlier this year, Drug Fair falling to Cleveland's Gray Drug (and eventually Sherwin-Williams) in the early 1980's, and Dart sold by founder Herbert Haft to a group of chain execs in a leveraged buyout last year.

Of the three, Drug Fair's transition has proven to be the rockiest (the chain's predicted "turn around" seems perpetually just around the corner).

Both Drug Fair and Dart, meanwhile, are moving to shore up bottom-line performance by shifting to less costly "downsized" stores.

Effective buying income per household	
Effective buying income	$50.5B
Effective buying income per household	$36,002
Total retail sales	$22.9B
Total retail sales per household	$18,118

Family Circle is starting an after-Christmas rush on these products

Watch for brisk movement of these cold-weather products starting December 23, when the January 21 issue of Family Circle goes on sale. In that issue, promotion-minded advertisers join the world's largest women's magazine in a product-moving promotion.

There were over 384-thousand entries in the 1985 Winter Survival Sweepstakes – with thousands of proofs of drug store product purchases. That's a good indication of the stepped-up sales activity this promotion generates.

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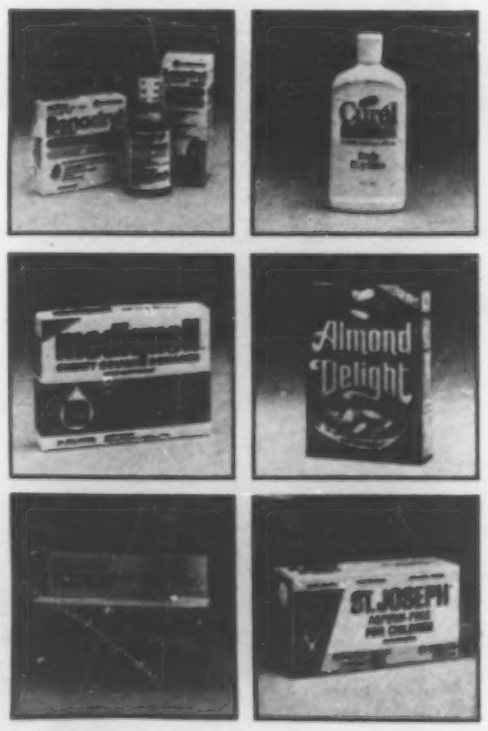

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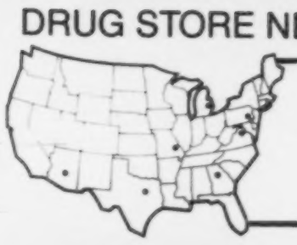

Store wars

Battle for market share fierce for Detroit chains

DETROIT — The lowdown on Motown is that it is still one of the most competitive and active drug store markets in the country. Perry Drugs is dominant here, yet controls only 17% of the drug store sales, showing, if nothing else, how truly razor-edged the competition is.

With each percentage point of market share equalling about $10 million in sales in this $1.1 billion drug store market, competition for those points is fierce. Adding to that fierceness is the fact that the population growth in the area is static and that the great majority of future sales growth for any one chain will be at the expense of its competition.

Sharing the market with Perry's 87 metro Detroit stores is F&M with 11 stores and a 7.1% market share, Arbor Drug with 28 stores and a 5.8 share, Revco with 36 locations and a 4.4 share, and Sentry with 19 stores and a 3.2 share.

There are also pharmacies and competitive H&BA departments in many of metro Detroit's K marts, Kroger and Farmer Jack supermarkets, as well as in the large Meijer's Thrifty Acre stores.

Even without "outside" chains making a foray into the Detroit metro market, many chain officials are trying to predict where their chains' future growth will come from.

The two strongest chains in the market, Perry on the conventional drug store side, and F&M on the deep discount side, have basically been credited for keeping any interlopers from entering the market. One drug store executive said that "another chain would have to be crazy to enter this market at this time, unless they bought at least 25 stores in order to get a strong foothold."

Most agree that the future growth of the drug store industry will come from store acquisitions and chain buyouts, and not necessarily from new store locations. However, Fred Seeley, Perry's senior vp of real estate, thinks the market is far from overstored and could use at least "100 more, full-size, full-service modern drug stores. There's a lot of pockets out there that can be filled to help penetrate the market," said Seeley. "The developers are still building in excellent neighborhood locations."

Seeley, who says that Perry is in a very good situation because of its good reputation and dominance within the market, has no problem finding good sites.

"More often than not, a developer will call me and say that he is considering a specific area to develop, and asks me to go along to see if Perry would also be interested." Seeley estimates that Perry now gets first shot at about

Continued on page 36

Major drug chains

Chain	No. of stores
1. Perry	87
2. Revco	36
3. Arbor	28
4. Sentry	19
5. F & M	11

Source: *Drug Store News* survey

Effective buying income vs. retail sales

Effective buying income	$49.8B
Effective buying income per household	$29,170
Total retail sales	$23.5B
Total retail sales per household	$14,892

Source: S & MM, 1985.

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Store wars: 7 hottest markets

Detroit battle for market share among toughest in the country

Continued from page 35

95% of the locations that become available.

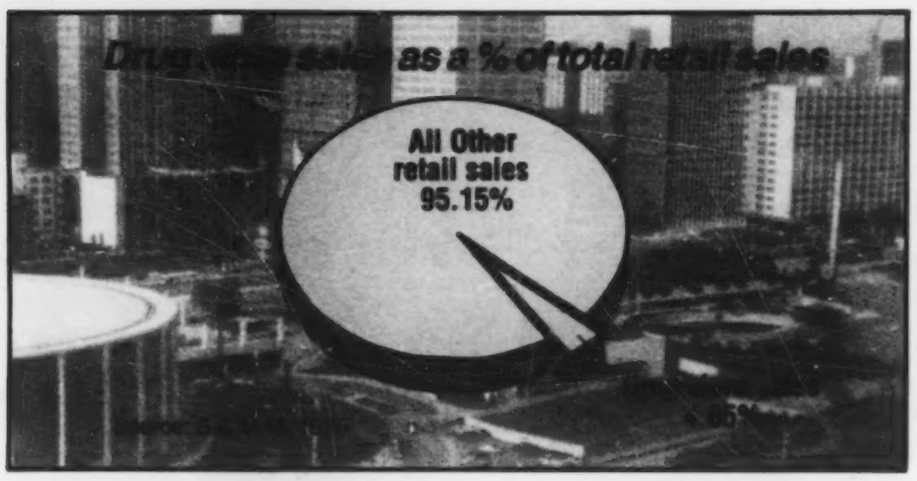
"It's very tough for any of the rest of us to even challenge Perry's dominance because they get all the good locations," said one Perry competitor who wished to remain nameless. "We have to go and court the developers; Perry sits back and gets invited to see soon-to-be-developed areas."

Many markets today are having problems with the larger grocery combos demanding pharmacy exclusivity in areas in which they build, thus closing out traditional drug stores from that mall or strip center. But Detroit's contractors haven't allowed this practice to begin.

"Our developers are strongly against no-compete clauses," said Seeley.

Sonny Raichlen of Cecille's, an independent deep discounter, said that he thinks the market is close to being saturated and that he sees most growth coming from the smaller independents being gobbled up by the chains.

"In the past six years, the chains have been taking over the independents in this market," said Raichlen. "At one time, Detroit was considered a hotbed of high-volume independent drug stores. Now those strong 'indies' can be counted on one hand."



Today, several chain officials claim that anywhere from 60% to 70% of the drug store business done in this market is done by chain drug stores. "Just seven years ago, that figure was much closer to being reversed in the independents' favor," said one chain executive.

F&M is considered to be the main reason that Detroit is such a mature drug store market, not only in store innovations, but in customer perception.

"The Detroit shopper is a smart, price-sensitive shopper. She knows how to shop a deep-discount drug store because she's been around a true deep discounter for so long," said Raichlen.

"F&M has been around so long and is so popular, that its name has become somewhat a generic name for deep discounting," said one Perry store manager. "When we opened our first A. L. Price store [Perry's deep discount division, now with three metro Detroit stores], I heard people call it an F&M-type store."

A buyer with one of the local chains said that the prices, even the deep discounted ones, are slowly working their way up. "It's a real hard market and we all try to beat the other's prices," he said. "But several times a year we'll raise an item, and within a couple of days our competition will do the same. None of us want the prices to go down so far that we have a hard time making a profit."

Whereas in most markets prescription prices are used to match or beat the competition, Detroit pharmacies find it hard to compete on a strict price basis because of all the third party co-pays.

"Our market is very heavy blue collar," said an Arbor pharmacist. "And most of the union workers have a great third-party prescription plan. By far the majority of the scripts I fill daily are co-pays. We really have nothing to cut prices on."

As far as promotional and advertising activity is concerned, Detroit is not a cohesive market. "There is no one dominant medium that drug stores use for advertising," said Bob Ruwoldt, vp for advertising at Perry.

Several drug store advertising executives agree that in Detroit, the best way to promote most effectively against competition is on a very local, almost neighborhood level. That means direct mail flyers and marriage mail vehicles.

"I don't look at Detroit as one market," said Seeley. "I look at it and see maybe 140 small markets that are all different and have special needs that we must fulfill."

As for broadcast advertising, Perry, F&M and Arbor use TV on a regular basis to promote their pharmacies, special services and philosophies, but not to promote prices. Radio is used sparingly by all drug store advertisers,

Major retailers

Major food chains	No. of stores	Major mass merchandisers	No. of stores
Bormans/Farmer Jack	82	K mart	55
Kroger	62	Meijer Thrifty Acres	6
Chatham	41	Kingsway	5
A&P	41	3-D	2
Allied	26	—	—

Source: A. C. Nielsen

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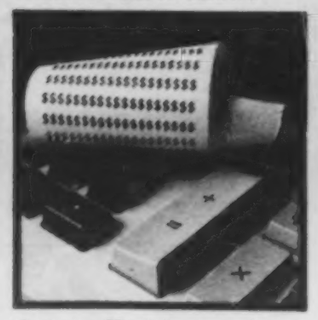

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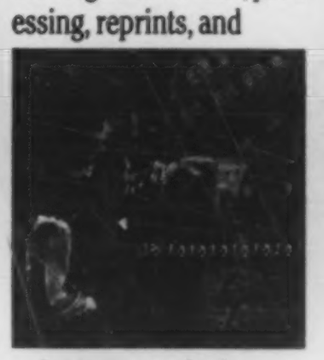

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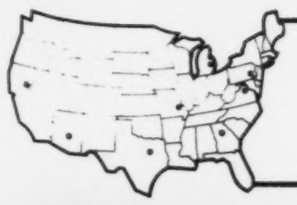

Store wars: 7 hottest markets

Phoenix: Aggressive marketing gives edge

By Lou Karney

PHOENIX — Phoenix's official motto is "Ditat Deus" (God enriches). But for drug retailers, a more pragmatic motto is: aggressive marketing enriches.

Even so, the bottom line is getting thinner. The "Who's Who" of Greater Phoenix is weighted with six of the nation's 12 top-volume chains: Walgreens, American Stores, Revco, Longs, Thrifty and SupeRx.

But there's more. Drug Emporium is the price setter; Smitty's, with 110,000-sq.-ft. department stores, leads in market share of H&BA and OTC with 18%, while K mart accounts for 8%.

Also nibbling at H&BA and general merchandise categories are Target and Gemco discount department stores and Price Club.

Although Target and Price Club do not operate pharmacies, there is no dearth of Rx competition—especially from HMO's with in-house Rx departments. Cigna, the largest and oldest HMO in Arizona (15 years) has 16 pharmacies to serve its 190,000 members.

Demographic breakout	
Population	1.7M
Households	669,100
Effective buying income	$19.1B

Source: S&MM Survey of buying power, 1985.

An additional marketing force is supermarkets, heavily laden with general merchandise, which are competing vigorously on the top 100 H&BA's.

But Fry's (a division of Kroger), the most aggressive food retailer, is also thrusting deeper into pharmacy.

Fry's operates 16 pharmacies in its 36 units. A half dozen of those food stores are in the 50,000-sq.-ft. area. The newest—expected to be the prototype—is the 58,000-sq.-ft. store opened in November at 7th and Bell in Phoenix.

The exterior is uniform in all Longs stores. This one is in northeast Phoenix.

Fry's sign aggressively promotes pharmacy.

Major retailers			
Major food chains	No. of stores	Major mass merchandisers	No. of stores
Safeway	53	Yellow Front	50
Bayless Market	42	K mart	15
National	35	Smitty's	13
American	29	T.G. & Y.	6
Kroger	25	Gemco	6
Lucky	22	Marshall's	2
Smitty's Market	20	Price Club	2

Source: A. C. Nielsen

Although Fry's downplays the "combo" tag and strives for a food image, the commitment to nonfoods and pharmacy is very much in evidence.

At its 51,000-sq.-ft. combo at 51st and Indian School Road, for example, Fry's leads off with pharmacy in the right corner and then spins into nine 74-ft. gondolas, stocked with drug store type merchandise, which extend almost to the center of the store.

A former exec. with Smitty's analyzes Fry's gambit: "With the strong competition in Phoenix, there is no way Fry's can increase its gross margins. So the next best thing is to increase traffic, through lower prices, and eat up the other people's market share."

Who are the "other people?"

"The independents," says the exec., "plus Albertsons, Safeway and Alpha Beta. Also, Bayless and Basha's, before new management took over."

However, Fry's is finding it easier to take food sales away from supermarkets than to "steal" prescriptions from drug stores. Typical is the five-year-old Fry's combo in west Phoenix which adjoins Walgreens in a shopping center.

According to Fry's prescription manager, Fry's fills 80-90 scripts a day compared to 235 at Walgreens. But then Fry's problem is universal—that is, trying to overcome the reluctance of food shoppers to have scripts filled in what they perceive as a food store.

But Fry's is not the only chain which has shifted tactics the past few years. Skaggs, once low-price leaders in Rx, are no longer low-balling across the board. As a profit-defense, Skaggs stores (renamed Osco) are competitive only on the top sellers.

Walgreens, the most successful chain in third-party contracts, has made promotional hay by highlighting the convenience of its pharmacy terminal system, in that scripts can be transferred to any Walgreens store in Arizona.

Walgreens also gets high marks for its ad program—especially liquor—and the expertise of its store management team (manager, assistant manager, department heads). Walgreens also has the most amibitious expansion program—7 to 10 new stores within the next year.

Seven months ago, K mart, operating 10 stores—all with pharmacies—discontinued its 10% senior citizen discount and dropped H&BA prices. Volume increased substantially, as a result.

The stretch-out of store hours as a one-upmanship move is subsiding as the chains try to curtail overhead. Today there are fewer stores open 24 hours—also fewer stores open to midnight. The trend is now to 9 to 9 or 9 to 10, with Walgreens operating the only 24-hour store where its pharmacy is also open 24 hours.

SupeRx suspends ads from the overhead along the aisle to attract customers as they shop.

The drug chain to watch? Longs, according to a consensus of wholesalers and retailers.

The division manager of a major wholesaler says it succinctly: "It's a well-run outfit, responding to the needs of the neighborhood, with clean aisles, full facings—and a price image through food and H&BA. Plus manager autonomy." Still, because of the fierce heat of competition, Longs was forced to extend its break-into-the-black timetable.

There are many who say that Phoenix is unequivocally the toughest market in the U.S. An exec. spells it out: "Nonfood margins have gone

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Phoenix Independents

One word most aptly describes the plight of the independents: embattled.

The problem is basic. The chains can literally give away prescriptions (and some have done so with third-party), but still make it at the front end. However, many independents are weak at the front end, and if they don't make it on Rx, they just don't make it.

SupeRx's one-year contract (outbidding Thrifty and Longs) with Comprehensive AHCCCS, is instructive. Comprehensive AHCCCS is an HMO, made up of a consortium of doctors and a hospital in Flagstaff. The contract provides a choice: AWP plus a 25¢ fee or $7.23 per patient per month on capitation.

In Phoenix, Arizona Prescription Service (APS), a wholly owned subsidiary of the Arizona Pharmacy Association, made a proposal to People's Choice, an HMO for AHCCCS (Arizona Health Care Cost Containment System). The proposal: AWP plus a fee of 75¢ for branded drugs or $1.50 for generics.

Criticized for proposing such a low fee, Mike Comick, executive director of APS, told *Drug Store News:* "The low fee reflects the nature of the competition—some contracts are for flat AWP with no fee. We're telling our members what's out there; it's up to them to make the choice."

Pharmacists say they need a fee of $3.50 just to break even.

How, then, have Arizona's 258 independent pharmacies survived?

Many give credit to United Drug, a voluntary group which services 140 independents statewide. Says Stan Sirota, owner of Fairmont United Drug: "United has the buying power of a chain, and they teach independents how to merchandise and manage."

Keystone of the United program is ESP (Everyday Savings Program) in which the chains are price-shopped on the top 150 H&BA items.

Says Mike Huston, executive director of United: "We have contracted for 15 different services for our members. These include H&BA, photo finishing, store design/layout, and computer systems. We also have our private label line of 40 H&BA items along with 64 sku's of private label vitamins."

United's income comes from over-rides from vendors. Last year, it generated $236,000 income, of which $144,000 was spent on advertising, and $75,000 was rebated to members. The balance was taxable rental income and interest income.

Mike Huston says that "three or four years ago the independent's market share dropped to 8%-9%, but programs such as ours increased that share to 12%-15%. Now it's dropping again because there are so many chain stores. But that's not all bad for the independents. The independents have been hurt by the chains as much as they possibly can; now the chains are taking it away from other chains."

Store wars: 7 hottest markets

Aggressive marketing tactics key to Phoenix traffic wars

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down two points over the last several years. At present, gross margins are 24%-25%, which is five to seven points below other areas of the country. Too many retailers want to sell H&BA and gm at cost—so in this crazy, dog-eat-dog market, buying has become more important than selling."

Is Greater Phoenix growing fast enough to warrant the retail commitment? No, because Phoenix is overstored. Nevertheless, Phoenix is one of the fastest-growing cities in the country, having gone from the 11th to 9th largest U.S. city since the last census.

In a 10-year span (1973-1983) population increased 43.3% and retail sales increased 204.4%. The state has three million residents; of that total, two million live in a radius of 30 miles of Phoenix.

Principal industries are manufacturing, agriculture, and tourism. The fastest-growing segment is electronics. Industrial watchers predict that Phoenix will become the Silicon Valley of the Sunbelt.

The lure for industry, in addition to a low tax base, is a pool of skilled workers at a lower pay scale than many other metropolitan cities. (Arizona is a right-to-work state.) What attracts the workers is the purchasing power of their dollar. For example, a three-bedroom house with a pool can be purchased for $60,000.

Market share

The winners (1979 to 1984) are Walgreens and Smitty's. The losers: Revco, Skaggs (now Osco), SupeRx and Thrifty.

On the heels of an aggressive new store program (from 21 to 33 stores), Walgreens has increased its share of prescriptions from 11% to 14%, and non-Rx drugs from 7% to 14%.

Smitty's moved from 5% to 10% in Rx, and from 12% to 18% on non-Rx.

Revco, despite adding six stores (from 34 to 40), dropped from 19% to 14% on Rx, from 12% to 10% on non-Rx.

Skaggs, with the same number of stores (18) slipped one point on both Rx and non-Rx (Rx: from 13% to 12%, and non-Rx, from 12% to 11%).

SupeRx added four stores (26 to 30) but saw its Rx share drop from 14% to 11%, and its non-Rx share from 9% to 6%. Thrifty (21 stores to 20) went from 6% to 5% on Rx; and from 4% to 3% on non-Rx.

Relative newcomers Longs and Drug Emporium have reduced the slices of the pie. Longs has 5% of Rx and 5% of non-Rx, while Drug Emporium's four stores captured 5% of Rx and 9% of non-Rx.

Effective buying income vs. retail sales

Effective buying income	$19.1B
Effective buying income per household	$25,153
Total retail sales	$10.7B
Total retail sales per household	$16,029

Source: S&MM Survey of Buying Power, 1985.

Major drug chains

Chain	No. of stores
1. Revco	40
2. Walgreens	34
3. SupeRx	30
4. Thrifty	20
5. Smitty's Super Valu	20
6. Skaggs	18
7. Longs	7
8. Drug Emporium	4

Source: *Drug Store News* survey

Drug store sales, as a % of total retail sales

Source: S & M M, 1985

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WARNER LAMBERT

Store wars

Medicare-Glaser battles Walgreens for St. Louis

ST. LOUIS — In this highly competitive $386.5 million drug store market, Walgreens and Medicare-Glaser are locked in a battle for market share, and for now, Walgreens is coming out ahead.

Medicare-Glaser has been hit hard as it goes after Walgreens, the market leader with 38 stores and roughly a 26% market share. Medicare Glaser with 56 stores commands about a 15% share. In addition, SupeRx, which operates a total of about 15 stores, including eight under the Gasen banner and four deep-discount Drug Worlds, has a 6% share.

Medicare-Glaser's long-term strategy to increase its market share has continued to have a negative impact on the bottom line—earnings are soft and sales are relatively flat. But, according to Harlan Steinbaum, president and ceo, these results were not unexpected. He said the company had predicted that its attempt to boost market share in its key St. Louis metro market would create a drag on performance.

The growth strategy includes conversion of some professional pharmacies to full-line drug stores, opening new stores, and increasing advertising and promotion. "We are maintaining a competitive posture, whatever is required to increase share of market," said Steinbaum.

The company's aggressive campaign comes at a time when a number of new players have entered the market, further intensifying the competition for Rx and especially H&BA dollars.

Sam's, a wholesale club operation, recently opened a store, and a number of deep discounters, including Drug Emporium, SupeRx's Drug World, and Colman's, have all opened units within the past year, bringing the total number of deep discounters in the area to nine. Wal-Mart's deep-discount store, Dot's, is also reportedly going to open in the area.

There are also pharmacies and H&BA departments in a number of Krogers, Schnuck's, and National food stores. Wal-Mart has recently started to add pharmacies to its stores and Schnuck's is targeting combos as its major growth vehicle.

Another contender in the market is Medicine Shoppe, a franchise pharmacy operator, which has increased its commitment to St. Louis by opening 13 stores here over the last three years.

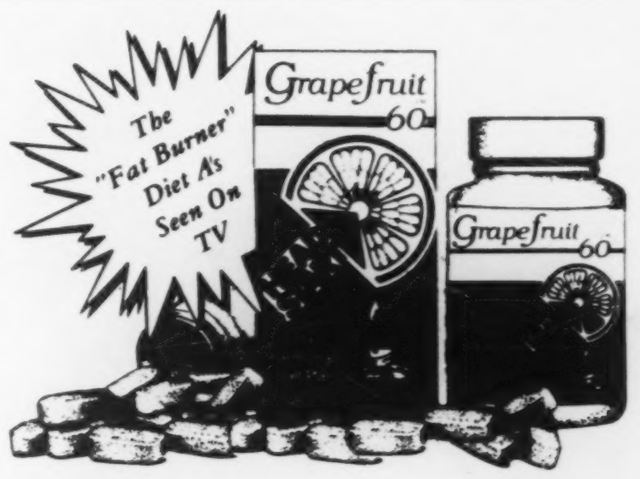
Although St. Louis' population of 2.4 million has not grown significantly over the past five years, the effective buying income of the population is over $27 billion and total retail sales per household is over $16,000.

In addition, the area is experiencing economic growth: since 1970, the region added 160,000 new jobs and $17 billion in commercial construction.

Despite the area's commercial growth, particularly in St. Charles and St. Claire, the fastest growing counties in the area, some drug store retailers believe that the area is reaching saturation. "It's difficult to find new, viable locations, especially when some of the combo operators are putting in noncompetitive clauses so that pharmacies can't do business in a new strip mall," said one local retailer in the area.

Added Art Kunkel, vp of Drug Emporium's St. Louis franchise: "This is not a piece-of-cake market and sales have not progressed as fast as in Atlanta and Columbus, but we are going to try and continue to expand as rapidly as possible because a year from now we may be paying 20% to 25% more for space." There are now three Drug Emporiums in the region and a fourth is scheduled to open next year in St. Charles County.

One area that some retailers believe is poorly served are the local neighborhood markets. Said one chain exec: "In this market you have to stay on your toes and be in right for a particular neighborhood and clientele. There are so many communities here that there is room for growth."



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